



DETERMINANTS OF EXCHANGE RATE CHANGES IN MALAYSIA

MUHAMMAD NAIM BIN ALI

2015140221

BACHELOR OF BUSINESS ADMINISTRATION

WITH HONOURS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

MALACCA CITY CAMPUS

JANUARY 2018

DETERMINANTS OF EXCHANGE RATE CHANGES IN MALAYSIA

MUHAMMAD NAIM BIN ALI

2015144577

Submitted in Partial Fulfilment of the

Requirement for the

Bachelor of Business Administration with Honours (Finance)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

MALACCA CITY CAMPUS

JANUARY 2018

DECLARATION OF ORIGINAL WORK



**BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS
(FINANCE)**

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

“DECLARATION OF ORIGINAL WORK”

1. Muhammad Naim Bin Ali (950823-14-5331)

Hereby, declare that:

- **This work has not previously been accepted in substance for any degree, locally or overseas, and is not being concurrently submitted for this degree or any other degrees.**
- **This project-paper is the result of my independent work and investigation, except where otherwise stated.**
- **All verbatim extracts have been distinguished by quotation marks and sources of my information has been specifically acknowledged.**

Signature: _____

Date: _____

LETTER OF SUBMISSION

Jan 2018

Dr. Abdul Rahim Ridzuan

Bachelor of Business Administration Hons (Finance)

Faculty of Business Management

Kampus Bandaraya Melaka

Universiti Teknologi MARA Melaka

110 Off Jalan Hang Tuah

75300 Melaka Bandaraya Bersejarah

Dear Sir/Madam,

SUBMISSION OF FINAL PROJECT PAPER

Attached is the project paper title “DETERMINANTS OF EXCHANGE RATE CHANGES IN MALAYSIA” to fulfil the requirement needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank You.

Yours Sincerely,

MUHAMMAD NAIM BIN ALI

2015140221

Bachelor of Business Administration with Honours (Finance)

ABSTRACT

This study examines the relationships that between exchange rate index (ERI) and the determinants exchange rate changes, economic growth rate (GDP), money supply (BM), total reserve (TR), current account balance (CAB) and inflation rate (INF) from the year of 1974 to 2015 which contains yearly data. This paper applies Autoregressive Distributed Lag (ARDL) methods in order to define the statistical relationship among the variables. Besides, there are steps involved in the study begin with Autoregressive Distributed Lag (ARDL) methods and proceed with Unit Root test, ARDL Cointegration, Diagnostic Test, ARDL short run and long run elasticities. In Diagnostic Tests, some tests done to check the significant presents of autocorrelation, the normality of data distribution, model specification and heteroscedasticity. The result of this study show that there are significant relationships between the Exchange Rate Index (ERI) and the economic growth (GDP), current account balance (CAB) and inflation rate (INF) while money supply (BM) and total reserve (TR) did not have any relationship with the ERI. The conclusion for the studies shows that the GDP, CAB and INF become the factors that affecting the ER changes in Malaysia.

Keywords: Exchange rate changes, exchange rate index, economic growth rate, money supply, total reserve, current account balance, inflation rate,